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Message Text

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ACTION EB-07

INFO OCT-01 AF-10 ARA-10 EUR-12 ISO-00 AGRE-00 CEA-01
CIAE-00 COME-00 DODE-00 FRB-03 H-01 INR-07 INT-05
L-03 LAB-04 NSAE-00 NSC-05 PA-01 EPG-02 AID-05
SS-15 STR-04 ITC-01 TRSE-00 USIA-06 PRS-01 SP-02
FEAE-00 OMB-01 EA-07 NEA-10 /124 W
----------041274 221415Z /43
R 221110Z JUN 77
FM AMEMBASSY BRASILIA
TO SECSTATE WASHDC 2369
AMEMBASSY LONDON
AMEMBASSY SAN SALVADOR
AMEMBASSY ANTANANARIVO
AMCONSUL RIO DE JANEIO
AMCONSUL SAO PAULO
AMEMBASSY GUATEMALA
AMEMBASSY SAN JOSE
AMEMBASSY MEXICO
AMEMBASSY BOGOTA
AMEMBASSY ABIDJAN

C O N F I D E N T I A L BRASILIA 5136

EO 11652 GDS
TAGS EAGR EPAP ETRD ICO BR
SUBJECT: BRAZILIAN COFFEE PURCHASES: REPRESENTATION TO FOREIGN MINISTRY

REFS(A) STATE 136727, (B) STATE 138013, (C) BRASILIA 4187

1. SUMMARY. IN RESPONSE TO EMBASSY'S PRESENTATION, FONMIN OFFICIAL STATED THAT THERE HAD NOT BEEN, IN GOB'S VIEW, ANY "NEW " BRAZILIAN COFFEE PURCHASES THIS YEAR, AND THAT IN ANY CASE SUCH PURCHASES WERE NOT CONTRARY TO THE ICA. OFFICIAL AFFIRMED BRAZIL'S RIGHT TO INTERVENE IN COFFEE MARKET WHEN TO DO SO IS IN BRAZIL'S INTEREST. END SUMMARY.
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2. ON JUNE 20 ECONOFF AND AGATT CALLED ON JORIO DAUSTER, FONMIN OFFICER IN CHARGE OF COFFEE, TO PRESENT US POSITION AS OUTLINED REF (A) ON REPORTED INTERBRAS COFFEE PURCHASES.

3. DAUSTER RESPONDED FIRST BY SAYING THAT INTERBRAS "PURCHASES" WE IN FACT NOT NEW PURCHASES BUT RATHER WERE THE COMPLETION OF

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CONTRACTS SIGNED LAST YEAR. HE ADMITTED THAT INTERBRAS MAY HAVE INTENTIONALLY OR UNINTENTIONALLY MISREPRESENTED THE NATURE OF THESE TRANSACTIONS THUS CAUSING A PSYCHOLOGICAL EFFECT ON THE MARKET. HE CONFIRMED THAT COFFEE PURCHASED BY BRAZIL UNDER THESE CONTRACTS WOULD NOT BE HELD OFF THE MARKET BUT WOULD BE USED FOR BRAZILIAN DOMESTIC CONSUMPTION AND FOR TRANSFORMATION INTO SOLUBLE COFFEE FOR EXPORT, THUS NOT AFFECTING THE VOLUME OF COFFEE ON WORLD MARKETS BUT ENABLING BRAZIL TO EXPORT MORE OF ITS OWN HIGHER-PRICED COFFEE.

4. DAUSTER WENT ON TO SAY THAT IF BRAZIL REALLY WANTED TO AFFECT COFFEE PRICES, IT WOULD NOT HAVE EXPORTED SO MUCH COFFEE DURING THE LAST 12 MONTHS. HE SAID THAT HE THOUGHT ONE REASON THAT COFFEE PRICES HAD BEEN FALLING WAS THAT IMPORTERS TOOK ADVANTAGE OF BRAZIL'S LIBERAL EXPORT POLICY TO PURCHASE STOCKS BEYOND THEIR IMMEDIATE NEEDS AND THEREFORE WERE NOT IN THE COFFEE MARKET NOW. (WHEN PRODDED BY ECONOFF, DAUSTER ADMITTED THAT IMPORTERS HAD STOCKED UP AT PRICES VERY FAVORABLE TO BRAZIL.)

5. AGATT QUESTIONED DAUSTER REGARDING BRAZIL'S MINIMUM EXPORT REGISTRATION PRICE WHICH, AT $3.20/LB. FOR JULY CONTRACTS, IS FAR ABOVE THE CURRENT MARKET PRICE. DAUSTER SAID HE EXPECTED FEW COFFEE SHIPMENTS DURING JULY - AUGUST BECAUSE IT WILL TAKE SOME TIME FOR THE COFFEE INDUSTRY TO ADAPT TO THE NEW COFFEE EXPORT POLICY REQUIRING EXPORTERS TO SELL ONE BAG OF COFFEE TO DOMESTIC ROASTERS AT A FIXED PRICE IN ORDER TO EXPORT 2 BAGS (REF C), (SAO CONFIDENTIAL

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PAULO NESPAPER GAZETA MERCANTIL OF JUNE 18 HAD ARTICLE QUOTING MINISTER OF INDUSTRIES AND COMMERCE CALMON DE SA AS SAYING THAT BRAZIL WOULD NOT EXPORT COFFEE AT ALL DURING JULY AND AUGUST IN ORDER TO FORCE IMPORTES AND CONSUMERS TO DRAW DOWN THEIR STOCKS AND FORCE PRICES UP.)

6. COMMENT. IF BRAZILIAN EXPORTS DO IN FACT TURN OUT TO BE VERY LOW IN JULY-AUGUST, THIS MAY HAVE A SIGNIFICANT EFFECT ON THE MARKET BECAUSE OF THE TRADITIONAL HEAVY VOLUME OF BRAZIL'S COFFEE EXPORTS DURING THE SECOND HALF OF THE YEAR. IF BRAZIL STANDS FIRM ON ITS $3.20/LB. MINIMUM EXPORT REGISTRATION PRICE, IT MAY PULL THE WORLD PRICE UP TO THAT LEVEL. WITH THE BALANCE OF PAYMENTS SURPLUS WHICH THE GOB WANTS SO BADLY THIS YEAR HIGHLY DEPENDENT ON THE EXPORT PERFORMANCE OF COFFEE, THE GOB WILL HAVE TO DECIDE ON THE TRADE-OFF BETWEEN SELLIN COFFEE AT A LOWER PRICE OR REFRAINING FROM SELLING IN HOPES OF FORCING A HIGHER PRICE. END COMMENT.

7. ECONOFF POINTED OUT THAT USG REGARDED ANY MEASURE TAKEN BY A PARTY TO THE ICA WHICH HAS THE EFFECT OF DECREASING COFFEE CONSUMPTION, E.G., ATTEMPTING TO MAINTAIN ARTIFICIALLY HIGH PRICES, AS CONTRARY TO THE ICA. DAUSTER STATED THAT GOB DID NOT BELIEVE

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THAT ITS COFFEE PURCHASES VIOLATED THE ICA, BUT HE DID NOT ELABORATE ON THIS POINT.

8. DAUSTER SEEMED RELATIVELY UNCONCERNED OVER THE EVIDENCE, CITED BY ECONOFF USING INFO FROM REF (B), THAT COFFEE CONSUMPTION WAS FALLING IN THE US. DAUSTER MERELY SAID THIS WAS A NATURAL REACTION IN THE FACE OF HIGHER PRICES AND SCARCITY. COMMENT.

GOB IN GENERAL SEEMS REMARKABLY UNCONCERNED OVER THE LONG-TERM EFFECTS ON COFFEE CONSUMPTION THAT RECENT AND CONTINUING HIGH COFFEE PRICES ARE CAUSING. GOB APPEARS TO BE MORE INTERSTED IN THE SHORT-TERM POSITIVE BALANCE OF PAYMENTS EFFECTS OF HIGH COFFEE PRICES. END COMMENT.

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9. AGATT REMINDED DAUSTER THAT USG HAD TAKEN OFFICIAL POSITON DURING CONGRESSIONAL COFFEE HEARINGS THAT BRAZIL HAD NOT ENGAGED IN MARKET MANIPULATIONS, AND SUGGESTED THAT THIS POSITION WOULD NOT BE AN EASY ONE TO MAINTAIN IN LIGHT OF INTERBRAS ACTIVITIES AND MAINTENANCE OF THE EXPORT REGISTRATION PRICE WELL ABOVE THE WORLD MARKET PRICE. AUSTER DID NOT SEEM PARTICULARLY CONCERNED ABOUT THIS, AND HE WENT AS FAR AS DEFENDING GOB INTERVENTION IN MARKETS IN ORDER TO COUNTER SPECULATION BY OTHER PARTIES.
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Message Attributes

Automatic Decaptioning: X
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Decaption Date: 01-Jan-1960 12:00:00 am
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 22 May 2009
Disposition Event:
Disposition History: n/a
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Drafter: n/a
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Executive Order: GS
Errors: N/A
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